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2003 Results-oriented annual report of the United Nations Capital Development Fund

Summary

This is the fourth results-oriented annual report (ROAR) of the United Nations Capital Development Fund (UNCDF), produced in compliance with Executive Board decision 99/22. The report assesses the results achieved by UNCDF for the entire period of its Strategic Results Framework (SRF) for 2000-2003.

In line with Executive Board decision 99/22, UNCDF investments and capacity building services are concentrated in two areas – local governance and microfinance.

Between 2000 and 2003, UNCDF partially achieved its operational targets in these two areas, while achieving its targets in organizational strengthening. A critical factor that has influenced performance is the core resource situation; despite an increase in core and non-core contributions in 2003, the long-term financial viability of the organization remains a concern.

This report should be read in conjunction with the report on the independent evaluation of the impact of UNCDF programmes and projects conducted in 2003 (DP/2004/18). The UNCDF management response document (DP/2004/19), presents the responses to the findings in these two reports.

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I. Introduction

1. Each year the UNCDF ROAR reports on the results achieved that year under the 2000-2003 SRF (DP/2000/CRP.10). This year the ROAR provides a cumulative assessment of the results attained from 2000 to 2003. This report should be read in conjunction with the report (DP/2004/18) on the 2003 independent evaluation of the impact of UNCDF programmes and projects, as background to the UNCDF management response document (DP/2004/19), which presents the strategic and operational responses to the findings in these two reports, and proposes the way forward for the organization.

2. The overall goal of UNCDF is to help reduce poverty in the least developed countries (LDCs) first and foremost. In line with Executive Board decision 99/22, UNCDF activities are concentrated in two service lines – local governance and microfinance.

3. The overall goal of reducing poverty is served by three sub-goals:

(a) Sub-goal 1: To increase sustainable access of the poor to basic infrastructure and public services, as well as to productive livelihoods opportunities, through good local governance and enhanced natural resources management;

(b) Sub-goal 2: To increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions and an enabling environment; and

(c) Sub-goal 3: To promote a financially sound organization which develops and implements quality programming in local governance and microfinance.

4. UNCDF is a member of the UNDP group and reports to the UNDP/UNFPA Executive Board. UNCDF programmes are designed to be in line with international and national policy frameworks such as the Millennium Development Goals (MDGs), the Brussels Programme of Action for the LDCs, and the country poverty reduction strategies (PRSs), as well as to be complementary to interventions within the United Nations Development Assistance Framework (UNDAF). In the majority of cases, UNCDF programmes its activities jointly with UNDP.

5. Sub-goals (a) and (b) are directly aligned with the relevant service lines of the UNDP multi-year funding framework (MYFF), and the SRF period is also harmonized with it.

II. Financial and portfolio analysis

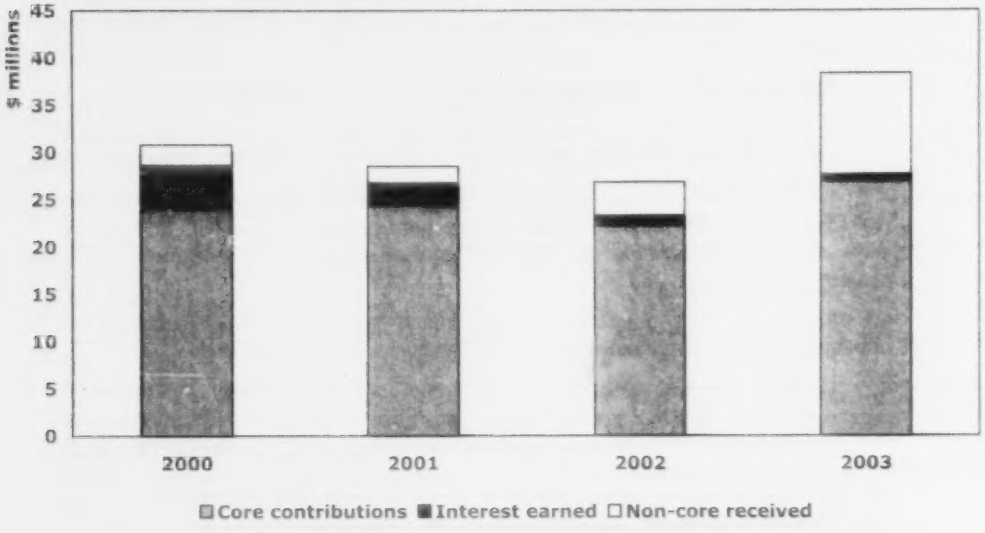
A. Financial analysis[1]

6. In 2003, the operational activities of UNCDF continued to be severely affected by the lower-than-expected level of contributions to its core resources, although on the income side, the downward trend of 2000-2002 was reversed. Core contributions increased from $22.2 million in 2002 to $26.9 million in 2003, 10 per cent short of the mobilization target of $30 million per year.

[1] The financial figures for 2003 are provisional.

7. As figure 1 illustrates, voluntary contributions made up the bulk of UNCDF overall resources. Until 2001, the interest earned on accumulated liquidities was the second largest 'contributor' to UNCDF. As UNCDF responded to demands from donor and programme countries to ensure impact on the ground through increased programme delivery, accumulated liquidities were depleted and interest earnings dropped rapidly, to $0.7 million in 2003. Non-core contributions have become an important second component of UNCDF resources, rising from $2.2 million received in 2000 to $10.7 million in 2003.

Figure 1. UNCDF resources : core, non-core received and interest, 2000-2003



8. Faced with the below-target level of core contributions in 2002, and with rapidly decreasing operational reserves, UNCDF had to reduce its core expenditures significantly in 2003 to align programme expenditures with available resources to ensure the integrity of the Fund. This resulted in programme expenditures from core resources of $16.7 million, down about a third from 2002. The situation also required a significant reduction of new project approvals, from $9.1 million in 2002 to $5.1 million in 2003, and a write-off of more than $55 million in outstanding commitments, involving programme cuts and closures.

9. The total expenditure from core and non-core resources between 2000 and 2003 was $147 million, with annual expenditures showing a downward trend since 2000. Total expenditures in 2003 were at a low of $27.8 million, down from $48.5 million in 2000. However, the 2003 portfolio clean-up, combined with an improving core resource situation, will allow for increased expenditures in 2004. Non-core expenditures reached a high of $4.9 million in 2003, and are projected to grow further in 2004.

Table 1. Expenditures from core and non-core resources (2000-2003)

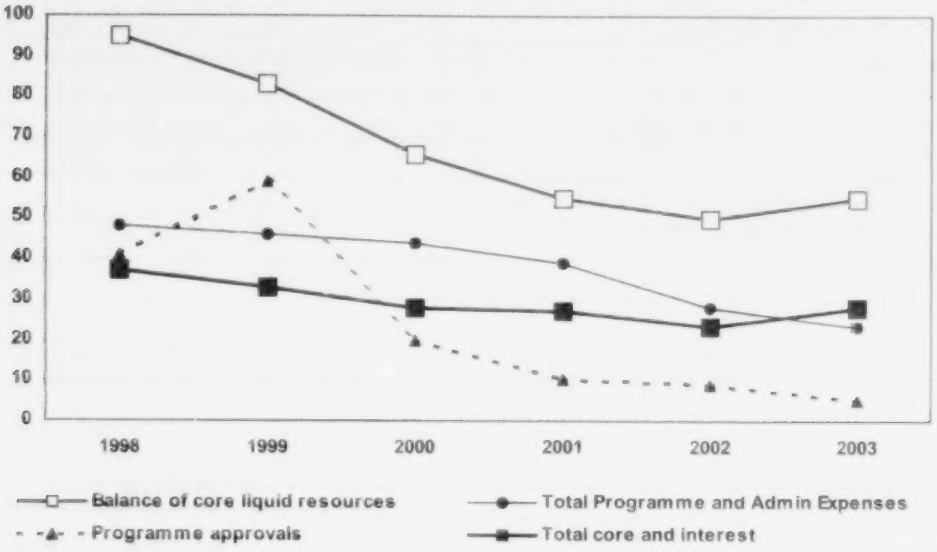
Expenditures (in $ millions)	2000	2001	2002	2003	2000-2003	%
From core	39.3	32.8	22.6	16.7	111.4	
From non-core	4.0	1.6	2.2	4.9	12.7	
Total programme level expenditures	43.3	34.4	24.8	21.6	124.1	84%
Management and administration	2.7	3.2	2.7	3.2	11.8	
Programme support	2.5	2.8	2.8	3.0	11.1	
Total Headquarters expenditures	5.2	6.0	5.5	6.2	22.9	16%
Grand total	**48.5**	**40.4**	**30.3**	**27.8**	**147**	**100%**

10. Table 2 analyses the total expenditures by SRF sub-goal. Local governance programmes were the primary focus of UNCDF spending – 78 per cent of total over the past four years – though the actual volume has declined significantly. Microfinance programme expenditures, accounting for 12 per cent of total, declined between 2000 and 2002 as under-performing projects were closed, but increased in 2003 as new investments were made in support of the sector development approach. Spending for organizational strengthening comes to 10 per cent of total.

Table 2. Expenditures per SRF sub-goal (2000-2003)

Expenditures (in $ millions)	2000	2001	2002	2003	2000-2003	%
Sub-goal 1: Local governance						
Programme level	36.3	29.4	23.2	18.5	107.4	
Headquarters level	1.8	2.0	2.0	2.1	7.9	
Subtotal	38.1	31.4	25.2	20.6	115.3	78%
Sub-goal 2: Microfinance						
Programme level	5.9	4.1	1.9	2.6	14.5	
Headquarters level	0.7	0.8	0.8	0.9	3.2	
Subtotal	6.6	4.9	2.7	3.5	17.7	12%
Sub-goal 3: Organizational strengthening						
Programme level	1.1	0.9	-0.3	0.5	2.2	
Headquarters level	2.7	3.2	2.7	3.2	11.8	
Subtotal	3.8	4.1	2.4	3.7	14.0	10%
Grand total	**48.5**	**40.4**	**30.3**	**27.8**	**147**	**100%**

Figure 2. UNCDF financial situation with respect to core resources, 1998-2003 ($ millions)



11. Figure 2 shows the trend in the UNCDF financial situation for core resources between 1998 and 2003, as programme approvals and expenditures were reduced significantly to ensure the financial integrity of the Fund. In 2003, these actions, together with the increase in core resources, resulted in income slightly higher than expenditures, allowing for a higher level of programme expenditures in 2004.

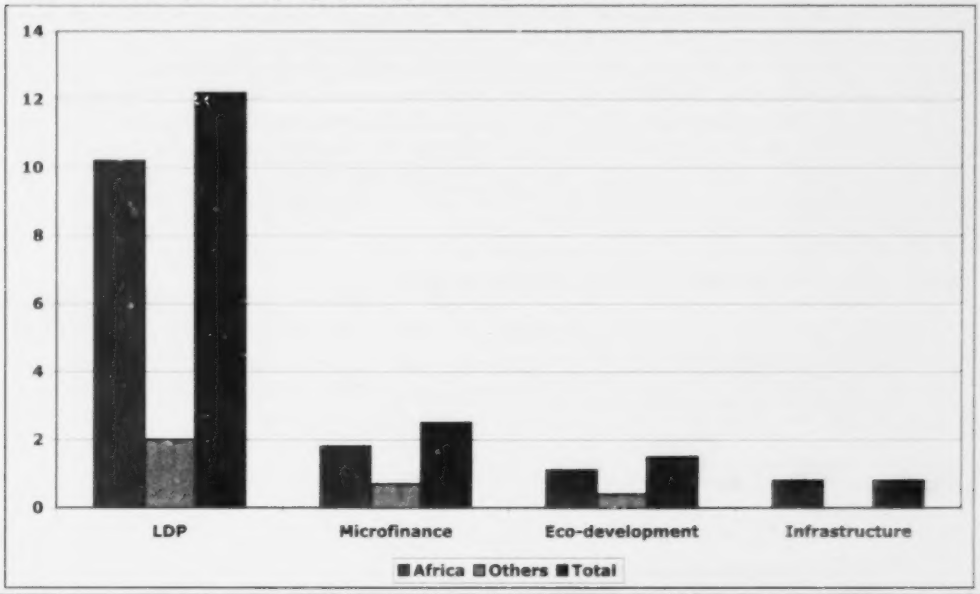
B. ROAR portfolio analysis

12. In 2003, UNCDF had an active portfolio of 74 projects with total programme expenditures from core and non-core resources of $21.6 million, of which 50 projects met the criteria for reporting[2]. Of these, 36 projects from 25 countries with expenditures of $17 million (or 79 per cent of total) submitted annual reports aggregated into this ROAR. The majority of the reporting projects are local development programmes (LDPs), followed by microfinance investments, eco-development projects, and infrastructure projects.

13. UNCDF resources are concentrated in Africa, with 26 projects (72 per cent of reporting projects) accounting for 82 per cent of expenditures. LDPs absorbed the majority of funding, followed by microfinance and eco-development projects. As infrastructure projects were phased out, by 2003 they accounted for just 5 per cent of expenditures.

[2] Projects with more than five months of activities and expenditure of more than $50,000 in the year of reporting.

Figure 3. ROAR portfolio per project type and region ($ millions)



Region	Africa		Others		Total		
Project type	**#**	**$**	**#**	**$**	**#**	**$**	**%**
LDP	15	10.2	4	2	19	12.2	72%
Microfinance	5	1.8	4	0.7	9	2.5	15%
Eco-development	3	1.1	2	0.4	5	1.5	9%
Infrastructure	3	0.8	0	0	3	0.8	5%
Total	**26**	**13.9**	**10**	**3.1**	**36**	**17.0**	**100**

III. Performance analysis

14. In order to assess the performance of UNCDF under its SRF, the following performance rating method has been established (see the annex for details on methodology):

Percentage of reporting projects achieving 75% or more of planned targets	Rating
75% or more	Satisfactory
50%-74%	Partially achieved
Less than 50%	Below expectations

A. Performance analysis for sub-goal 1: Local governance

15. Sub-goal 1 of the SRF is *to increase sustainable access of the poor to basic infrastructure and public services and to productive livelihoods opportunities through local governance and enhanced natural resources management.*

16. Total expenditure for 2000-2003 came to $115.3 million. For 2003, 27 projects reported under this sub-goal (19 LDPs, five eco-development projects and three infrastructure projects).

Key aggregate results (2000-2003)

(a) Policy impact achieved in 15 countries (79 per cent success rate).
(b) Replication achieved in 14 countries (74 per cent success rate).
(c) $29.1 million in non-core resource agreements signed in support to LDPs.
(d) An estimated 6.5 million people can benefit from several thousand small-scale infrastructures constructed over the four years; these include water and sanitation infrastructures, rural roads, irrigation schemes, health centers and schools.

17. The following table summarizes 2000-2003 performance under sub-goal 1.

Table 3. 2000-2003 aggregate performance under sub-goal 1

	Outcome	2000	2001	2002	2003	Average
1.1.1	Improved capacity of local communities and civil society organizations to participate in the planning of local development.	85%	82%	67%	**56% ⇓**	**73%**
1.1.2	Participatory planning processes are institutionalized at the level of local authorities.	57%	79%	73%	**68% ⇓**	**69%**
1.2.1	Financing mechanisms, based on principles of good governance, are institutionalized at the local level.	76%	71%	64%	**49% ⇓**	**65%**
1.2.2	Local authorities have improved access to sustainable funding sources.	38%	44%	60%	**40% ⇓**	**46%**
1.3.1	Local capacity to deliver basic infrastructure and public services is increased.	79%	54%	42%	**46% ⇑**	**55%**
1.3.2	Local capacity to maintain basic infrastructure and public services is increased.	57%	63%	62%	**48% ⇓**	**58%**
1.3.3	Local communities are empowered to hold local authorities accountable for the delivery of basic infrastructure and public services.	67%	84%	65%	**74% ⇑**	**72%**
1.4.1	Capacity of the local authorities and the communities to manage the natural resources base in a sustainable manner is improved.	50%	60%	51%	**56% ⇑**	**54%**

	Outcome	2000	2001	2002	2003	Average
1.5.1	National policy and regulatory frameworks for decentralization and strengthened local government is improved.	83%	59%	62%	40% ⇓	61%
1.5.2	Best practices of UNCDF pilot projects are replicated by other donors and central governments.	80%	50%	58%	52% ⇓	60%
	Average	67%	65%	60%	53% ⇓	61%

Results

18. As a small-scale investor, the impact of the organization at the country level emanates from its ability to be innovative and to provide stakeholders with concrete results on the ground on a pilot scale, paving the way for larger-scale replication and policy impact. Those outcomes (1.5.1 and 1.5.2) are therefore of great importance to UNCDF and warrant further weighting. The indicators for the four-year period suggest partial achievement in policy impact (61 per cent) and replication (60 per cent). However, this understates the cumulative achievements of UNCDF in promoting decentralization as an effective strategy for poverty reduction in LDCs.

19. During the SRF period, at the request of programme countries, UNCDF supported decentralization efforts in 19 countries. UNCDF has achieved significant policy impact in the development and approval of national decentralization policies in 15 of these countries. In 14 countries (74 per cent), UNCDF pilots were replicated by other larger development partners. Interest in the LDP approach is also reflected in growing non-core support from partners, totalling $29.1 million.

Examples of policy impact and replication in Niger and Bangladesh

***Niger**: Replication by UNDP, the World Bank and DANIDA. UNCDF was responsible for formulating the governance component of the Community-Driven Development/World Bank programme. In 2003, a pre-appraisal mission was conducted by the Belgian Cooperation for another project adopting the LDP model of intervention in Niger.*

***Bangladesh**: UNCDF piloted a methodology for assessing the performance of local governments was adopted by the Government and replicated nationwide. The Government committed to direct block-grant funding for local authorities and requested support in rolling out, nationwide, the financing and planning procedures piloted by UNCDF. A number of donors are replicating the UNCDF approach.*

20. These upstream policy outcomes were achieved very rapidly, as efforts towards them were initiated only in 1999.

21. In 2002, UNCDF began to leverage its experience by offering advisory services in local governance to UNDP and other development partners on a cost-recovery basis. To date, some 25 missions have been fielded in support of UNDP, the World Bank and bilateral partners. This has allowed for dissemination of experience and lessons learned and is a mark of recognition for UNCDF expertise.

22. Overall, UNCDF rates its performance under this sub-goal as partially achieved, with an overall (unweighted) average achievement rate of 61 per cent. In 2003, cuts in core funding had a deleterious effect on overall project performance

and, consequently, an adverse effect on client organizations, local authorities, and local populations in LDCs.

> ***Excerpt from an aide-memoire evaluating UNCDF support to a good local governance project in Tanzania**: [T]he budget cuts in 2003, amounting to $1.6 million, caused the interruption of road projects and left the contractors in a vulnerable position; they experienced difficulties in repaying loans and their training was not extended beyond the pilot stage. Village access, services and employment were also affected. More importantly, confidence in the project was lost.*

Challenges and the way forward

23. While the scope for policy-piloting in the area of setting up local governance and decentralization systems is narrowing as many countries press forward with decentralization, building on its expertise and knowledge base, UNCDF can contribute to the broader UNDP corporate goal of *localizing the MDGs* and broker partnerships between local public and private actors.

The MDGs and PRSs at the local level

24. Many of the goods and services prioritized within PRSs, and required to achieve the MDGs, are precisely those best decentralized to local authorities. This presents a major opportunity to build and focus on areas of policy innovation in basic service delivery, such as local pro-poor public expenditure management; local accountability; the service-delivery role of the local private sector; and local public-private partnerships in service delivery to the poor.

Follow-up to the recently launched United Nations report "Unleashing entrepreneurship: making business work for the poor"

25. This report highlighted the essential role of private entrepreneurial activity in economic development and poverty reduction, especially in the smaller urban and the rural areas where UNCDF has strong experience and developed expertise. Fostering local entrepreneurship and developing an enabling environment for the local private sector stimulates local economic development, which, besides increasing access to basic social services, is vital to achieving the MDGs. This could include activities such as encouraging private investment through local public investment in 'enabling' infrastructure projects; innovating schemes for direct support to private enterprise; facilitating access to broader financing options; and piloting a role for local authorities in brokering market information and resources.

B. Performance analysis for sub-goal 2: Microfinance

26. Sub-goal 2 is *to increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions (MFIs) and an enabling environment.*

27. In addition to managing UNCDF investments in microfinance, UNCDF is the technical and policy advisor to the UNDP group in microfinance. Total expenditure for 2000-2003 came to $17.7 million.

Key aggregate results (2000-2003)

28. Seventeen countries have improved their policy and enabling environment for microfinance services with support from UNCDF.

(a) A total of 573,485 people have received microfinance services from MFIs supported by UNCDF.

(b) In 2003, 543,733 people received microfinance services from the MFIs supported by the UNDP/UNCDF MicroStart programme, with women making up 93 per cent of clients.

(c) Thirty-one, or two-thirds, of the MFIs currently supported have achieved operational self-sufficiency.

Results

29. Through the MicroStart programme, UNCDF has partnered with UNDP in 20 countries, half of them LDCs. By the end of 2003, the 68 MFIs had increased their active clients by over 400,000 and made significant progress towards sustainability. Preliminary findings from an external review of the UNDP global microfinance portfolio by the Consultative Group to Assist the Poor (CGAP) indicate that MicroStart is the most successful programme in the UNDP portfolio and that the design and technical management of UNCDF are key factors behind this success.

Support and scaling up for a market leader. *Equity Building Society (EBS) has emerged as a leading MFI in East Africa. UNCDF and UNDP supported this successful institution through both the MicroStart and MicroSave programmes. Increased efficiency as a result of the MicroStart grant for computers and training reduced customer service time from 30 minutes about two minutes. EBS credits MicroStart with improving its level of service so significantly that other financial institutions were forced to follow suit. UNCDF/UNDP support to EBS was followed by $3 million from other sources.*

30. The performance of UNCDF-supported microfinance projects improved over the period due to the concentration of support on MFIs that demonstrated potential. Notable achievements include the expansion of the female client base and the attainment of full operational self-sufficiency by more than a third of the MFIs. Nevertheless, for many of the UNCDF-supported MFIs, operational and financial self-sufficiency remain challenges.

31. Over the SRF period, UNCDF had demonstrable impact on the development of national microfinance policy in 17 programme countries, and in 2003 approved its first programme applying the sector development approach. Together with UNDP and the KfW bank group, UNCDF launched a $9.3 million programme to build the microfinance sector in Sierra Leone. In addition, seven sector development appraisals were carried out in 2003. However, there remains the problem of insufficient core funding available to initiate new investments.

Table 4. 2000-2003 aggregate performance under sub-goal 2

	Outcome	2000	2001	2002	2003	Average
2.1.1	MFIs reaching targets regarding number of active borrowers.	96%	70%	70%	78% ⇑	78%
2.2.1	Microfinance institutions are financially viable and provide quality services.	88%	56%	68%	55% ⇓	68%

	Outcome	2000	2001	2002	2003	Average
2.3.1	Number of countries that have improved their enabling environments for supporting the development of microfinance.	1	5	9	**17** ⇑	**n.a.**
	Average (2.1.1 and 2.2.1 only)	92%	63%	69%	**72%**	**74%**

(SRF indicators 2.1.1 and 2.2.1 relate only to UNCDF investments; 2.3.1 relates to both UNCDF and UNDP investments)

Challenges and the way forward

32. Microfinance should be provided in a sustainable manner in order to ensure outreach and have a lasting impact on poverty reduction. UNCDF determined that the building of microfinance as an integral part of the formal financial sector is an effective means of meeting the MDGs. Countries with young and/or emerging microfinance sectors that can develop and integrate into the formal, commercial sector over time should be targeted. The growing pipeline of investments and successful implementation of this strategy will require an increase in available resources.

33. UNCDF will continue to provide technical advisory services and training to develop the capacity of the UNDP group, donor agencies and governments – often in partnership with CGAP – to apply best microfinance practices. The designation by the General Assembly of UNCDF, with the United Nations Department of Economic and Social Affairs, to serve as focal point to coordinate the activities of the United Nations system for the International Year of Microcredit in 2005 provides an opportunity to highlight the contribution of microfinance to the MDGs and to building inclusive financial sectors.

C. Performance analysis for sub-goal 3: Organizational strengthening

34. Sub-goal 3 is *to promote a financially sound organization, which develops and implements quality programming in local governance and microfinance.*

35. Total expenditure for organizational strengthening for 2000-2003 came to $14 million. The overall target attainment rate was fully satisfactory, with a high achievement average of 84 per cent of all targets over the four years. The indicators under this sub-goal were refined and revised in 2002 to better capture performance in terms of corporate and financial management. However, what is not adequately reflected in the indicators is the long-term financial viability of the organization, which, as the independent impact assessment concluded, is a major concern.

Table 5. 2000-2003 aggregate performance under sub-goal 3

	Outcome	2000	2001	2002	2003	Average
3.1.1.	UNCDF moves from policy refinement to achieving policy impact.	Satisfactory	57%	68%	**71%** ⇑	**65%**
3.1.2.	UNCDF maintains operational results and quality assurance through improved elements of the project cycle and continuous learning through monitoring and evaluation.	95%	76%	106%	**79%** ⇓	**89%**
3.1.3.	UNCDF maximizes its comparative advantage through strengthened and expanded strategic partnerships.	Partially achieved	Satisfactory	129%	**97%** ⇓	**113%**

	Outcome	2000	2001	2002	2003	Average
3.2.1.	UNCDF maintains effective corporate management.		77%	82%	87% ⇑	82%
3.2.2.	UNCDF attracts, develops and retains high quality personnel.	n.a.	n.a.	106%	93% ⇓	100%
3.2.3.	UNCDF improves financial efficiency.	87%	96%	62%	104% ⇑	87%
3.2.4.	UNCDF expands and diversifies its funding base.	67%		78%		74%
	Average	83%	71%	90%	90%	84%

Key aggregate results (2000-2003)

(a) The independent impact assessment confirmed that UNCDF had progressed from blueprint infrastructure projects to focus on LDPs and microfinance investments in LDCs. It also confirmed that UNCDF had made a successful transition from policy development and refinement to achieving policy impact and replication.

(b) UNCDF has developed strong technical expertise and implementation capacity in local governance and microfinance, and is recognized by partners as a provider of high quality technical advisory services in these areas.

(c) A total of $30.5 million was raised in non-core resources, almost tripling from 2000 to 2003.

36. The strategic areas where UNCDF performed most strongly were in operational results and quality assurance (89 per cent), strategic partnerships (113 per cent) and in building teams of high-quality technical experts (100 per cent). In order to work better with its primary partner – UNDP – two memoranda of understanding have been signed for each of the two service lines. As indicated in the independent impact assessment, additional work needs to be done to clarify the strategic relationship between UNDP and UNCDF.

37. Corporate management was effective and focused on following through on the recommendations of the 1999 external evaluation and completing the tasks enumerated in the Business Plan 2001-2003.

38. Given the below-target core contributions, management took actions necessary to ensuring the financial integrity of the Fund. The high rating under the financial efficiency indicator reflects effective management of limited financial resources, as well as the recent success in non-core resource mobilization. However, as programme resources fell, the ratio of programme to overall expenditures inevitably diminished. This should be rectified in 2004 when programme expenditure returns to a higher level. The medium- to long-term financial viability of the organization, however, remains in question.

Challenges and the way forward

39. UNCDF is at a critical crossroads. There is little indication that the Fund will be able to attain the Board-endorsed core resources target of $30 million per year under the current operational strategy. UNCDF could continue to concentrate its limited programme resources on its two niche areas, as endorsed in Executive Board decision 99/22, responding in a limited manner to pressing demands from LDCs for capital and technical assistance. However, experience shows that investments in

complex decentralization and microfinance sectoral support programmes require a medium- to long-term perspective and commitment to ensure positive impact.

40. The independent impact assessment of UNCDF has put forward several recommendations including suggestions to analyse, review and develop a new business model and the appropriate corporate governance arrangements to support it. Some basic principles and directions are presented in the UNCDF management response document (DP/2004/19).

41. UNCDF can build on the strong expertise and capacity in its current niche areas, and has the ability to make timely adjustments to its programming strategy in response to the changing needs and opportunities, and to implement these changes expeditiously.

IV. Analysis of outcomes by strategic areas of support

42. This section provides analyses of the different outcomes grouped under the strategic areas of support for each of the three sub-goals. Percentages in the tables denote the percentage of projects that have achieved 75 per cent or more of their annual targets.

A. Local governance

43. The strategic areas of support for this sub-goal are sequentially related to the implementation cycle of the LDPs. For example, capacity building in participatory planning usually takes place before capacity building for infrastructure delivery. As a result, the number of projects reporting varies for each indicator over the years.

44. The first strategic area of support for local governance is *1.1: Promote a participatory development planning process at the local level*. It has two outcomes.

Outcome 1.1.1: Improved capacity of local communities and civil society organizations to participate in the planning of local development. (2000-2003 average: 73%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.1.1.a – Community needs are assessed in a participatory manner.	88% 14/16	95% 19/20	66% 12/19	**67%** **12/18**
1.1.1.b – Participation of women in community needs assessments.	83% 10/12	69% 11/16	88% 7/8	**71%** **5/7**
1.1.1.c – Members of local development committees and women's groups are trained in participatory planning.	n.a.	81% 13/16	47% 7/15	**31%** **4/13**
Average	**85%**	82%	**67%**	**56%**

45. This was an area of consistently good performance for UNCDF until recently, with a cumulative average of 73 per cent of its projects attaining satisfactory performance. Levels of participation remained high in 2000 but, faced with budget reductions, priority had to be given to capital investments over capacity building.

Outcome 1.1.2: Participatory planning processes are institutionalized at the level of local authorities. (2000-2003 average: 69%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.1.2.a – Local authorities approve local development plans	57% 8/14	82% 14/17	47% 8/17	**56%** **9/16**
1.1.2.b – Guidelines for elaborating local development plans exist and are complied with	n.a.	73% 8/11	81% 13/16	**58%** **7/12**
1.1.2.c – Local authorities' guidelines require that Local Development Plans derive from participatory planning exercise.	n.a.	83% 5/6	100% 2/2	**100%** **5/5**
1.1.2.d – Local authorities define and apply transparent investment selection criteria.	n.a	100% 10/10	55% 6/11	**57%** **8/14**
1.1.2.e – Community representatives, including women, are involved in the approval of local development plans.	n.a.	58% 7/12	82% 9/11	**70%** **7/10**
Average		79%		**68%**

46. Between 2000 and 2003, at least 1,965 local development committees were formed and at least 1,230 local development plans approved for funding, with more than 76,000 community members involved, about 30 per cent of them women. To ensure that women were able to participate in a meaningful way; in Bangladesh, for example, separate voting cards were used to avoid manipulation of the decision making for project approval at the local level.

47. The second strategic area of support for local governance is *1.2: Promote sound and sustainable financing and financial management practices at the local level.* It has two outcomes.

Outcome 1.2.1. Financing mechanisms based on principles of good governance are institutionalized at the local level. (2000-2003 average: 65%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.2.1.a – Local authorities prepare annual investment plans.	n.a.	100% 11/11	85% 11/13	**67%** **10/15**
1.2.1.b – Local authorities' accounts are audited by a national audit authority.	n.a.	40% 2/5	17% 1/6	**(17%)** **2/12**
1.2.1.c – Improved compliance by local authorities with national financial, management and accounting procedures.	86% 6/7	75% 3/4	83% 5/6	**55%** **6/11**

Indicators	2000 results	2001 results	2002 results	2003 results
1.2.1.d – Local authorities meet project defined minimum conditions for fund access.	n.a.	80% 8/10	75% 6/8	**50%** **8/16**
1.2.1.e – Local authorities staff are trained in accounting and financial management.	n.a.	33% 5/15	53% 9/17	**42%** **5/12**
1.2.1.f – Local authorities publicize budgets and expenditures (including indicative planning figures).	67% 4/6	100% 8/8	70% 7/10	**67%** **8/12**
Average	**76%**	71%	**64%**	**49%**

48. Although the percentage of projects attaining 75 per cent or more of their targets has declined, the absolute number of successful projects has been consistent for most indicators under this outcome. Several projects have reported that planned audits were not done because of budget cuts.

Outcome 1.2.2. Local authorities have improved access to sustainable funding sources. (2000-2003 average: 46%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.2.2.a – Local authorities' local revenues increase.	38% 3/8	50% 3/6	67% 8/12	**16%** **2/12**
1.2.2.b – Intergovernmental fiscal transfers to local authorities are stabilized or increase.	n.a.	33% 2/6	50% 2/4	**60%** **3/5**
1.2.2.c – Donor funding to local authorities increases	n.a	50% 3/6	62% 5/8	**44%** **4/9**
1.2.2.d – UNCDF funding as a share of local authorities' total resources declines, according to plan.	n.a.	n.a.	67% 4/6	**30%** **1/3**
Average	**38%**	44%	**60%**	**40%**

49. The overall low performance in this area highlights the severe challenge facing local authorities in accessing alternative sources of sustainable funding. There have been focused efforts to use local investment plans for mobilizing additional local resources, with mixed success.

50. The third strategic area of support to local governance is *1.3: Develop local capacity to deliver and maintain basic infrastructure and public services on a sustainable basis.* It has three outcomes.

Outcome 1.3.1. Increased local capacity to deliver basic infrastructure and public services. (2000-2003 average: 55%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.3.1.a – Number of basic infrastructure and public services at community level increases.	68% 15/22	55% 12/22	35% 9/26	42% 9/21
1.3.1.b – Targets for km of roads rehabilitated or constructed achieved.	n.a.	60% 6/10	50% 5/10	50% 3/6
1.3.1.c – Micro-projects are completed within 125% of planned budget.	n.a.	71% 10/14	30% 3/10	46% 6/12
1.3.1.d – Micro-projects are completed within 125% of scheduled timing.	n.a.	40% 4/10	25% 2/8	30% 3/10
1.3.1.e – At least 75% of micro-projects are positively assessed for quality.	89%	30% 3/10	57% 8/14	61% 8/13
1.3.1.f – Local authorities and the private sector are trained in the delivery of basic infrastructure and public services.	n.a.	67% 12/18	60% 15/25	45% 9/20
Average	**79%**	54%	**42%**	**46%**

51. This outcome has inevitably been the one most affected by the budget cutbacks. Since 2002, results have dropped to below 50 per cent. This is cause for grave concern, not only because this is the outcome most directly related to ultimate poverty impact but also because the budget cutbacks undermine UNCDF credibility and partnership with both local and national authorities.

Outcome 1.3.2. Increased local capacity to maintain basic infrastructure and public services. (2000-2003 average: 58%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.3.2.a – Physical infrastructure is being maintained two years after it was built.	n.a.	60% 3/5	75% 3/4	63% 7/11
1.3.2.b – Micro-projects that have operation and maintenance plans and budgets prior to construction.	57% 8/14	50% 7/14	69% 9/13	57% 4/7
1.3.2.c – Targets regarding km of roads rehabilitated or constructed that have maintenance plans and budgets are met.	n.a.	100% 2/2	67% 2/3	25% 1/4

Indicators	2000 results	2001 results	2002 results	2003 results
1.3.2.d – Local authorities and the private sector are trained in the maintenance of basic infrastructure.	n.a.	43% 6/14	37% 7/19	(50%) 9/18
Average	**57%**	63%	62%	48%

52. Sound operations and effective maintenance of infrastructure are key to ensuring the sustainability of local development efforts and long-term impact on poverty alleviation. This area has been identified as problematic by external evaluators and has been recognized as a corporate priority for remedial action.

Outcome 1.3.3. Local communities are empowered to hold local authorities accountable for the delivery of basic infrastructure and public services. (2000-2003 average: 72%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.3.3.a – Local authorities have put in place and are using consultation mechanisms.	n.a.	67% 8/12	54% 7/16	**50%** **6/12**
1.3.3.b – Local authorities are bound by rules that ensure that bidding and contracting is transparent and that the processes are open to public review.	n.a.	86% 6/7	50% 6/12	**73%** **8/11**
1.3.3.c – Local communities have access to public spending records.	67% 4/6	100% 3/3	100% 3/3	**100%** **5/5**
Average	**67%**	84%	65%	**74%**

53. This is an area of relative strength. Public access to information on local spending has been successfully ensured over the years, and transparent rules and processes have been established.

54. The fourth strategic area of support to local governance is *1.4: Promote productive livelihoods opportunities through sustainable local management of natural resources*. It has one outcome.

Outcome 1.4.1. Improved capacity of local authorities and communities to manage the natural resource base in a sustainable manner. (2000-2003 average: 54%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.4.1.a. – Local authorities plan and invest in initiatives relating to natural resource management.	50% 3/6	63% 5/8	50% 6/12	**50%** **4/8**
1.4.1.b – Local authorities control and regulate access and use of natural resources.	n.a.	60% 3/5	50% 4/8	**36%** **4/11**

Indicators	2000 results	2001 results	2002 results	2003 results
1.4.1.c – Initiatives relating to natural resource management supported by two or more local authorities.	n.a.	40% 2/5	67% 6/9	**60%** **3/5**
1.4.1.d – Natural resource management user groups are established and functional.	n.a.	71% 5/7	44% 4/9	**63%** **5/8**
1.4.1.e – Increase in households deriving their income from new on-farm or off-farm activities.	n.a.	67% 8/12	43% 6/14	**70%** **7/10**
Average	**50%**	60%	**51%**	**56%**

55. Performance in this area was low in 2002 but improved slightly in 2003, partly due to a more comprehensive conceptual framework that highlighted the key role of '*local environmental governance*', combining institutional development, regulatory frameworks and appropriate techniques.

56. The fifth strategic area of support to local governance is *1.5. Advocate for national policies supporting decentralization, and for replication of pilot programmes.* It has two outcomes.

Outcome 1.5.1. Improved national policy and regulatory frameworks for decentralization and strengthened local government. (2000-2003 average: 61%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.5.1.a – National policy directions on decentralization are influenced by UNCDF programmes.	n.a.	43% 3/7	50% 6/12	**55%** **6/11**
1.5.1.b - Statutory and legal frameworks are influenced by UNCDF programmes.	100% 7/7	100% 4/4	50% 2/4	**40%** **2/5**
1.5.1.c – Regulatory framework is influenced by UNCDF programmes.	67% 6/9	60% 3/5	100% 3/3	**14%** **1/7**
1.5.1.d – Norms, systems and procedures at the local level reflect UNCDF lessons learned.	n.a.	33% 3/9	46% 6/13	**50%** **8/16**
Average	83%	59%	62%	**40%**

57. The average assessment for the four-year period understates the cumulative achievements under this important outcome, which is that policy impact has been achieved in 15 out of 19 countries (79 per cent).

Outcome 1.5.2. Best practices of UNCDF pilot projects are replicated by other donors. (2000-2003 average: 60%)

Indicators	2000 results	2001 results	2002 results	2003 results
1.5.2.a – UNCDF support to local authorities is replaced or increased through co-financing by other donors.	80% 4/5	100% 2/2	40% 2/5	**50%** **2/4**
1.5.2.b – UNCDF programmes are replicated outside UNCDF programme areas by other donors.	n.a.	50% 1/2	67% 2/3	**40%** **2/5**
1.5.2.c – UNCDF programme methodology has been adopted by other donors.	n.a.	0% 0/1	67% 6/9	**67%** **4/6**
Average	80%	50%	58%	**52%**

58. UNCDF pilots have been replicated or overtly imitated by other, larger development partners in 14 countries. In some cases, development partner projects have been influenced by the LDP approach, though without explicit recognition.

B. Microfinance

59. The first strategic area of support to microfinance is *2.1: Support an increase in assets of the poor.* It has one outcome.

60. In the following analysis, the performance assessments presented in the tables for outcomes 2.1 and 2.2 only refer to UNCDF microfinance investments, while the assessment of UNCDF support to UNDP microfinance investments is provided in narrative only.

61. Through MicroStart, UNCDF partnered with UNDP in 20 countries. The 68 MFIs that received assistance reached more than half a million clients during the period of support. They increased from a baseline of 141,414 to 543,733 active clients, an increase of more than 400,000. Ninety-two per cent of these clients are women. The impact assessment of UNCDF also noted the key role it played in the initial launch and scaling up of MicroSave Africa, which provided new or improved financial services to over 450,000 clients in 2003.

Outcome 2.1.1. The poor, especially women, have greater access to microfinance. (2000-2003 average: 79%)

Indicators	2000 results	2001 results	2002 results	2003 results
2.1.1.a – MFIs reaching targets regarding number of active borrowers.	96% 26/27	70% 19/27	70% 16/23	**78%** **7/9**
Average	**96%**	70%	**70%**	**78%**

62. With respect to the microfinance investments of UNCDF itself, seven out of nine MFIs attained their targets for active borrowers in 2003 and one of them exceeded those targets. The performance is of concern as it reflects a declining portfolio. This year, the MFIs report an increase in the percentage of female borrowers – 68 per cent compared to 46 per cent last year.

63. The second strategic area of support to microfinance is *2.2: Promote the development of sustainable microfinance institutions.* It has one outcome.

64. For the UNDP MicroStart investments, managed by UNCDF, 2003 saw an increasing number of 'breakthrough' MFIs[3]. Of the 32 active MFIs, 21 (or 66 per cent) demonstrated clear progress towards operational self-sufficiency, 18 of them (56 per cent) having already achieved this. In addition, 21 MFIs (66 per cent) had a portfolio-at-risk at 30 days below the industry benchmark of 5 per cent.

Outcome 2.2.1. Microfinance institutions are financially viable and provide quality services. (2000-2003 average: 69%)

Indicators	2000 results	2001 results	2002 results	2003 results
2.2.1.a – MFIs reaching targets regarding operational self-sufficiency rates.	88% 14/16	59% 16/27	95% 20/21	**63%** **5/8**
2.2.1.b – MFIs reaching targets regarding portfolio at risk.	n.a.	42% 11/26	48% 11/23	**56%** **5/9**
2.2.1.c – MFIs reaching targets regarding portfolio outstanding.	n.a.	67% 18/27	61% 14/23	**78%** **7/9**
Average	**88%**	56%	**68%**	**65%**

65. With respect to UNCDF microfinance investments (see table above), MFIs made satisfactory progress towards their targets for portfolio outstanding. Performance towards operational self-sufficiency and reducing portfolio-at-risk remain challenging.

66. The third strategic area of support to microfinance is *2.3: Advocate for an enabling environment for sustainable microfinance activities.* It has one outcome.

Outcome 2.3.1. Countries have improved their enabling environment for supporting the development of microfinance. (Cumulative total: 17 countries)

Indicators	2000 results	2001 results	2002 results	2003 results
2.3.1.a – Number of countries improving their enabling environment for supporting the development of microfinance with UNCDF support.	1 country Madagascar	5 countries adding – Cambodia Mongolia Morocco Uganda	9 countries adding – Kenya Malawi Mauritania Nigeria	**17 countries adding –** **Egypt** **Lesotho** **Senegal** **Sierra Leone** **Tanzania** **Togo** **Turkey** **Yemen**
Cumulative total	**1**	5	**9**	**17**

67. Prior to 2003, UNCDF had succeeded in at least nine programme countries; in 2003, eight more were added to the list. This result represents an important shift in government policies towards supporting sustainable microfinance, as well as the increased focus of UNCDF on policy support.

[3] A breakthrough is defined as an organization that becomes a major service provider in its geographic area, attaining substantial independence from donors through financial viability, and influencing other providers.

C. Organizational strengthening

68. The first strategic area of support to organizational strengthening is *3.1: Promote excellence in the planning, implementation, monitoring and evaluation of local development programmes and microfinance operations.* It has three outcomes.

Outcome 3.1.1. UNCDF moves from policy refinement to achieving operational impact. (2000-2003 average: 65%)

Indicators	2000 results	2001 results	2002 results	2003 results
3.1.1.a – External evaluations with overall positive findings.	Satisfactory	Satisfactory	73% 11/15	**86%** **12/14**
3.1.1.b – Number of positive results attained in policy impact and replication. • Policy impact • Replication	n.a.	57% 54% (14/26) 60% (3/5)	63% 68% (21/31) 59% (10/17)	56% 56% (28/50) 56% (10/18)
Average	**Satisfactory**	57%	**68%**	**71%**

69. In 2003, 12 out of 14 external evaluations (five project evaluations, eight programme impact assessments, and an organizational performance assessment) assessed the operational impact of the UNCDF activities positively. The assessments affirmed the theoretical underpinnings and impact of the local governance and microfinance programmes. The performance in terms of policy impact and replication, while dropping in relative terms, has improved in absolute terms over the years.

Outcome 3.1.2. UNCDF maintains operational results and quality assurance through improved elements of the project cycle and continuous learning through monitoring and evaluation. (2000-2003 average: 89%)

Indicators	2000 results	2001 results	2002 results	2003 results
3.1.2.a – Projects formulated within a year (from fielding of mission to approval).	Satisfactory	Exceeded expectations	100% (4/4)	**67%** **(6/9)**
3.1.2.b – Projects formulated according to corporate guidelines and approved.	Satisfactory	Satisfactory	80% (4/5)	**89%** **(8/9)**
3.1.2.c – Projects approved that start implementation within six months.	n.a.	n.a.	80% (4/6)	**100%** **(6/6)**
3.1.2.d – Ongoing projects with monitoring and evaluations systems in place.	n.a.	48% (44/92)	43% (40/93)	**46%** **(34/74)**
3.1.2.e – Projects reporting through the management information system (MIS).	n.a.	n.a.	75% (15/20)	**73%** **(29/40)**
3.1.2.f – Annual reports available for ROAR.	n.a.	83% (44/53)	69% (40/58)	**72%** **(36/50)**
3.1.2.g – Evaluations implemented according to plan.	90% (18/20)	71% (15/21)	67% (16/24)	**74%** **(14/19)**

Indicators	2000 results	2001 results	2002 results	2003 results
3.1.2.h – Best practices documented and disseminated.	100% (9/9)	100% (2/2)	350% (7/2)	**113% (34/30)**
Average	**95%**	76%	**106%**	**79%**

70. UNCDF performed strongly under this outcome over the four years. Following the recommendations of the 1999 external evaluation, UNCDF reduced project formulation and implementation time significantly, and steadily improved its monitoring and evaluation systems. Documentation and dissemination of best practices is an area of consistently high performance, though the impact assessment noted that knowledge management could be more effective.

Outcome 3.1.3. UNCDF maximizes its comparative advantage through strengthened and expanded strategic partnerships. (2000-2003 average: 113%)

Indicators	2000 results	2001 results	2002 results	2003 results
3.1.3.a – Number of programmes, projects and joint activities with replication partners.	50% 1/2	100% 2/2	180% 9/5	100% 17/17
3.1.3.b – Number of technical advisory services provided.		380% (19/5)	108% (43/40)	92% (59/64)
3.1.3.c – Number of external visits per week to website.		3800	7000	6500
3.1.3.d – Number of new publications or videos produced as planned.			100% (2/2)	100% (7/7)
Average	**Partially achieved**	**Satisfactory**	**129%**	**97%**

71. There was a remarkable increase in the number of programmes and joint activities with replication partners, increasing from a single activity in 2000 to 17 in 2003. The number of discrete advisory services provided with cost recovery grew from 19 missions in 2001 to 59 in 2003. The number of new publications and video productions also grew, helping to disseminate experience and promote UNCDF to strategic partners.

Outcome 3.2.1. UNCDF maintains effective corporate management. (2000-2003 average: 82%)

Indicators	2000 results	2001 results	2002 results	2003 results
3.2.1.a – Targets of corporate management/business plans are met.	**Action plan: 100% (3/3)**	Action plan: 77% (8.5/11)	**Action plan: 82% (9/11) Business plan: 82% (50/61)**	**Action plan: 91% (10/11) Business plan: 89%**
3.2.1.b – Targets of unit plans are met.	n.a.	n.a.	82% *LGU: 81% Microfinance Unit: 90% *EVAL: 75%	84% LGU: 82% Microfinance unit: 100% EVAL: 69%
Average		**77%**	**82%**	**87%**

*LGU=Local Governance Unit; EVAL=Evaluation Unit

72. Corporate management was effective and focused on completing the tasks enumerated in the Action Plan 2000 and the Business Plan 2001-2003. The impact assessment of UNCDF confirmed that the organization had followed through on the recommendations of the 1999 external evaluation, with 10 out of the 11 (91 per cent) recommendations either completed or under way.

Outcome 3.2.2. UNCDF attracts, develops and retain high quality personnel. (2000-2003 average: 100%)

Indicators	2000 results	2001 results	2002 results	2003 results
3.2.2.a – Ratio of actual staff to planned staff in Headquarters.			**92% (47/51)**	**90% (46/51)**
3.2.2.b – Targets for competency development and training are met.			120%	96%
Average			106%	**93%**

73. Budget constraints required UNCDF to reduce its staffing over the past few years. By the end of 2003, UNCDF had a 10 per cent vacancy rate in anticipation of a reduction in the total number of core posts at Headquarters from 38 in the 2002-2003 biennium budget to 32 in the 2004-2005 budget. This led to increased work pressure and had a negative impact on staff morale. UNCDF had attained a healthy 50:50 gender balance at the professional level by the end of 2003. To maintain its comparative advantage, UNCDF committed resources for competency development activities, which were carried out successfully.

Outcome 3.2.3. UNCDF improves financial efficiency. (2000-2003 average: 87%)

Indicators	2000 results	2001 results	2002 results	2003 results
3.2.3.a – Financial performance				
1. Headquarters expenditures as a percentage of total UNCDF expenditures.	11%	15%	18%	**22%**
2. Programme expenditures as a percentage of total UNCDF expenditures.	89%	85%	82%	**78%**
3.2.3.b – Accuracy of financial planning (i.e., variance analysis of actual expenditure in relation to planned expenditure)				
1. Programme expenditures (core) - Percentage of target - Actual/target (in $ millions)	97% 39.3/40	91% 32.8/36	90% 22.6/25	**88%** **16.7/19**
2. Approvals - Percent of target - Actual/target (in $ millions)	77% 19.2/25	100% 10.6/10.6	48% 9.1/6	**73%** **5.1/4**
3.2.3.c – Cost-recovery through technical advisory services (in $ millions) actual/target	n.a.	n.a.	47% 0.2/0.4	**150%** **1.5/1**
Average (excluding 3.2.3.a)	**87%**		62%	**104%**

74. The high rating of performance under this outcome reflects efficient financial management, not resource mobilization. The administrative budget of UNCDF remained constant at around $6 million for the past decade. Increased salary costs due to General Assembly-mandated salary increases were offset by post reductions. This, along with other cost-cutting measures, kept the Headquarters-to-programme expenditure ratio at an acceptable level, (below 20 per cent) until 2003, when the sharp reduction in programme expenditure resulted in a Headquarters ratio of 22 per cent. This should be corrected in 2004 when total programme expenditure should increase. It should be noted that Headquarters expenditures include the costs of technical advice and support to programmes.

Outcome 3.2.4. UNCDF expands and diversifies its funding base. (2000-2003 average: 74%)

Indicators	2000 results	2001 results	2002 results	2003 results
3.2.4.a – Core and non-core funding	80%	81%	74%	**90%**
1. Core (in $ millions)	30.3/38	24.3/30	22.3/30	**27/30**
2. Non-core agreements signed (in $ millions)	76%	51%	125%	**102%**
	3.8/5	4.1/8	12.5/10	**10.2/10**
3. Non-core funding received	44%	21%	35%	**107%**
	2.2/5	1.7/8	3.5/10	**10.7/10**
3.2.4.b – Number of donors	20	15	16	**19**
Average (for 3.2.4a only)	**67%**		78%	**100%**

75. UNCDF expresses gratitude to new donors and those that have increased their contributions, while noting that the overall increase in core contributions in 2003 was due in large part to favourable exchange rates. Donors indicated that the outcome of the independent impact assessment of UNCDF could have implications for their future contributions. As the assessment is favourable in the main, future core can be expected to stabilize or even increase. Non-core resources have increased rapidly. While it is anticipated that UNCDF will be able to continue to mobilize high levels of non-core support, it is unlikely to be a source of significant growth in future years without a firm base of core resources – and it cannot serve as a substitute for core resources.

V. Lessons learned in results-based management

76. The introduction of results-based management (RBM) into UNCDF initiated an organization-wide culture change. Over time, with the requisite support from management, the RBM development and reporting process helped clarify and build a common understanding of the organization and its strategy, focusing staff efforts on key strategic results and improving project planning and monitoring at the field level. Several key lessons learned were:

(a) In order to infuse RBM into the work culture of the organization, direct links must be created between the RBM system and the unit and individual performance plans.

(b) To ensure continued relevance, the RBM indicators must be reviewed and revised regularly (though this flexibility may complicate inter-year comparisons).

(c) The RBM system is suited to reporting on project performance in terms of output attainment but less so for reporting on outcome/impact. That is, it is better suited to assessing organizational effectiveness than development effectiveness.

(d) As the RBM system is a self-assessment system, there is, over time, the danger of distortion or information bias in order to attain better performance ratings. The validation process, utilizing external evaluations to validate the self-assessments, will have to guard against this.

77. The underlying assumption of the RBM system – that higher levels of performance denote improving organizational effectiveness – is challenged by the innovative, high-risk nature of the interventions undertaken by UNCDF, for which some rate of 'failure' is expected – indeed, it is an integral and important aspect of innovation and learning.

Annex. The SRF/ROAR methodology

78. The strategic results framework 2000-2003 was developed in 2000 in consultation with all UNCDF partners and staff, including field staff, and was approved by the Executive Board in June 2000. As a 'live' results-based management tool, the SRF is revised regularly.

79. Annual targets for outcomes and outputs are set for projects and linked with SRF indicators (if and when relevant). Programme managers, monitoring and evaluation technical advisors and the Evaluation Unit screen the targets to ensure relevance to the SRF and that targets are realistic. Annual work plan reports are submitted at the end of the year. Field technical reports and external project evaluation findings are used to validate them.

80. Performance is rated according to target achievement rates for each project reporting under a specific SRF outcome indicator. The categories are defined as follows:

(a)	Over 100%:	Exceeded targets
(b)	75 - 100%:	Satisfactory
(c)	50 - 74%:	Partially achieved
(d)	Below 50%:	Below expectations

81. Performance under each SRF outcome indicator is calculated by dividing the number of projects assessed as "satisfactory" and "exceeded targets" by the number of projects reporting under the indicator. For example:

Project	Target	Achievement	Percentage	Category
Project 1	100 villages	80 villages	80%	Satisfactory
Project 2	50 communes	25 communes	50%	Partially achieved
Project 3	2 districts	2 districts	100%	Satisfactory
Overall assessment of indicator			67% (i.e. 2 out of 3 projects attain 75% or more of their targets)	Satisfactory

82 For the 2003 ROAR, following the assessment of performance by SRF indicator, to facilitate inter-year comparability of different indicator sets for sub-goals 1 and 2, the assessment of overall progress towards an outcome is calculated by taking the average of the indicator scores. A "satisfactory" assessment means that UNCDF has progressed acceptably towards achieving the outcome. For example:

Outcome indicator	Total number of projects reporting	Number of projects satisfactory or better
Indicator 1	3	2 (67%) – satisfactory]
Indicator 2	16	15 (93.8%) – satisfactory]
Indicator 3	10	6 (60%) – partially achieved]
Overall assessment of progress towards outcome		73.4% (Rating: partially achieved)

83. Finally, the assessments of outcomes are aggregated under each sub-goal and analyzed to determine the overall performance of the fund and identify future corrective measures.

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Note by the Executive Board secretariat

Corrigendum

Page 13, table 5 (continuation)

Row 4, column 4 (2001 outcome) should read
51%
Row 4, column 6 (2003 outcome) should read
100%

Page 24, paragraph 72, table for outcome 3.2.2

Row 3, column 3 (2001 results – Average) should read
96%

Page 25, paragraph 74, table for outcome 3.2.4

Row 3, column 3 (2001 results – Average for 3.2.4a only) should read
51%

Page 27, paragraph 81, project table

Row 4, column 5 (Overall assessment of indicator – Category) should read
Partially achieved

Page 27, paragraph 82, outcome indicator table

Row 1, column 3 (Indicator 1 – Number of projects satisfactory or better) should read
Partially achieved

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Independent impact assessment of the United Nations Capital Development Fund – Executive summary

Summary

The executive summary of the independent impact assessment of UNCDF, carried out in compliance with Executive Board decision 99/22, presents the findings of the assessment on the effectiveness, efficiency, relevance and financial sustainability of the United Nations Capital Development Fund (UNCDF). The evaluators make a series of recommendations and identify options for consideration in the current deliberations on the future focus, corporate governance and business model of UNCDF.

The independent impact assessment is divided into three components conducted by separate teams of independent consultants (see annex 1 for an overview of the assessment components). The full reports of all components are available on the Executive Board web site at www.undp.org/execbrd.

Contributions from the Department for International Development of the United Kingdom and the Belgian Survival Fund helped to finance this assessment. The remainder of the cost of the assessment was covered by UNCDF regular resources.

This document should be read in conjunction with the 2003 UNCDF results-oriented annual report (DP/2004/17). Together these assessments of the performance and status of the Fund inform the UNCDF management response (DP/2004/19), the third document submitted by UNCDF to the Executive Board at the present session.

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Executive Summary of the Synthesis Report of the Independent Impact Assessment of UNCDF

Universalia Management Group

Overview of the Report

1. Universalia is pleased to submit to the Executive Board of the United Nations Capital Development Fund (UNCDF) this final report on the Independent Impact Assessment (IIA) of UNCDF mandated by the Executive Board of UNCDF in its decision 99/22.

2. The primary objective of the IIA was to assess whether UNCDF is performing as an effective, efficient, and sustainable organisation that has remained relevant in carrying out its mandate to reduce poverty in the Least Developed Countries (LDCs). A second objective was to assess whether UNCDF has responded appropriately to implement the 1995 policy shift, which narrowed the Fund's focus to microfinance operations and local governance programmes. A third objective was to assess the extent to which UNCDF has implemented the recommendations of the 1999 independent external evaluation.

3. This document (Volume I) is the synthesis report of the Independent Impact Assessment. Volumes II to IV are presented in separate documents, and contain the methodological appendices, UNCDF Portfolio Analysis, and results of the Staff Survey respectively.

4. The IIA was informed by three distinct processes: the Organisational Performance Assessment (OPA) conducted by Universalia (Canada); the Programme Impact Assessment (PIA) of UNCDF Microfinance Programmes in Kenya, Nigeria, Malawi and Haiti, conducted by Enterprising Solutions Global Consulting, LLC (USA); and the PIA of UNCDF's Local Development Programmes in Uganda, Mozambique, Mali and Cambodia, conducted by ECI*Africa* Consulting International (Pty) Ltd (South Africa).

5. To assess the organisational performance of UNCDF, Universalia collected primary data using a mix of qualitative and quantitative techniques which included document review, individual and group interviews at HQ and in the field (147 individuals participated); a project portfolio analysis; field visits to Madagascar, Benin and Niger; and a survey of 170 stakeholders including all UNCDF staff at headquarters and in the field and UNDP Resident Representatives and Deputy Resident Representatives (response rate was 63%). Universalia integrated the results and findings of the two Programme Impact Assessments of the Microfinance and Local Development programmes with those of the Organisational Performance Assessment to produce the IIA Synthesis Report.

Findings on UNCDF Performance

6. **Effectiveness** – UNCDF microfinance and local governance projects are generally aligned with corporate policy and strategy. Corporate policies on pro-poor focus and local participation are being applied in UNCDF, although there is a need to develop strategies that will strengthen the participation of marginalised groups, especially women in participatory processes. UNCDF has made some progress in the application of the gender mainstreaming policy, especially in some projects, but the consistent application of this policy across projects and throughout the project remains a challenge. UNCDF has implemented most of the recommendations of the external evaluation of 1999; others are still being worked on.

7. The PIAs confirmed that the underlying programme logic of the Local Development and Microfinance Programmes is largely sound. UNCDF Microfinance and Local Governance interventions contribute to poverty reduction at the local level and to participation and empowerment, and there is indication of

impacts. Some challenges were noted, such as fully including marginalised groups, particularly women. There is evidence that UNCDF has contributed to impacts on the policy environments in the countries in which it works and it has been successful in leveraging replication of its approaches by a diverse group of donors.

8. UNCDF's contributions to sustainability of results also emerge in this assessment. UNCDF microfinance programming has improved MFI performance in key aspects of institutional sustainability, such as outreach and efficiency levels. In local governance programming, the LDPs have been embedded in local practice and procedure, which creates a solid foundation for sustainability. There are a number of contextual and capacity issues – both for MFIs and local authorities – that are noted as concerns for the sustainability of results in MF and LG programmes.

9. **Efficiency** – UNCDF's modest administrative (HQ) budget reflects an appropriate deployment of resources and has remained constant in nominal terms over the past five years. At the same time, however, the decline in contributions to core resources has led to reductions in programme expenditures. The inevitable result is an overall trend that raises concerns about organisational efficiency: in relative terms, the administrative costs are increasing in relation to programme funding. Important to note, however, is that Technical Advisory Services, which are key elements of UNCDF programmes, are counted as HQ/Admin costs and not programme costs, which serves to distort this measure of efficiency somewhat. UNCDF has improved some work processes, especially those related to response times in parts of the project cycle, but improvements are still required in financial planning, tracking and reporting, and corporate information management.

10. **Relevance** – UNCDF programming models in both microfinance and local governance demonstrate a clear and innovative niche. It fulfils an important risk-taking, innovation role that other development agencies and LDC Governments are interested in expanding and building on. Furthermore, assessment of UNCDF's programmes confirmed that UNCDF's mission, programmes and goals are relevant to the achievement of the Millennium Development Goals (MDGs). Its programming supports the Programme of Action for the LDCs for the decade 2001-2010 and responds to the local needs of the countries in which it intervenes. UNCDF supports most of the broad goals of UNDP, but there appear to be missed opportunities for collaboration that could enhance UNCDF's relevance. While donors are decreasing their core contributions to UNCDF, they are using UNCDF as a vehicle to implement their countries' international development strategies through non-core funding and parallel financing, which have increased considerably in recent years.

11. **Financial Viability** – Although UNCDF's expenditures and income are aligned, indicating a well-balanced budget, this has been achieved by significantly cutting programme budgets and adjusting administrative budgets. The Fund did not meet its 2003 target for core funding and, given that core funding is the principal way in which it funds its activities, the decline and unpredictability in core funding seriously jeopardises UNCDF's ability to fulfil its mission and role within the UN system. Non-core funding is becoming more important in relative terms, but there are issues to consider in assessing its potential contribution in the future. The decline in the project pipeline, together with the current relationship between headquarters expenditures (which includes administration, as well as technical advisory services) and programme expenditures, raises significant issues for UNCDF's viability.

Findings on Factors Affecting UNCDF Performance

12. **Leadership** – UNCDF receives a great deal of praise for the leadership exercised by the Executive Secretary and his senior team, particularly from donors and other external stakeholders.

13. **Governance** – The Executive Board has an oversight role with respect to UNCDF and has implemented this function with diligence and professionalism. However, some limitations in the governance structure have caused staff to become somewhat disillusioned about the role and contributions of the Executive Board, particularly as concerns the mobilisation of resources.

14. **Niche** – UNCDF programming models in both microfinance and local governance demonstrate a clear and innovative niche, although within the UN family, UNCDF's niche in microfinance is better

defined than in the local governance area. Various changes in the international development context and the decrease in UNCDF's core resources directly affect its niche. For example, the shift towards programmatic forms of development cooperation may affect UNCDF's approach, which focuses on small-scale pilot projects. Likewise, the shift from downstream funding to upstream funding means that donors are more likely to allocate aid directly to recipient governments, rather than to funding various projects, although there remains an important role in the development financing architecture for innovative, risk-taking organisations such as UNCDF.

15. **Resource Mobilisation** – UNCDF has articulated a resource mobilisation strategy that primarily targets core funding resources. The strategy has resulted in some modest gains but is not likely to ensure the viability of the Fund.

16. **Highly Qualified Staff** – UNCDF's highly talented staff, one of the Fund's strongest assets, is experiencing a period of low morale as a result of uncertainties about the future of the Fund. Faced with budget cuts that have focused greater attention on efficiency, HQ and field staff are struggling to minimise the effects of the cuts on performance.

17. **Programme Management** – UNCDF has made elements of its project cycle more effective, but there is room for improvement. Planning, monitoring and reporting systems that support results-based management are in place. The processes and systems that support further institutionalisation of a "managing for results" culture require additional strengthening. The Evaluation Unit (EU) has developed several approaches to integrating accountability and learning into organisational practice, but resource cuts and some resistance from programme units to respond to the demands of EU affect its overall effectiveness.

18. **Knowledge Management** – In spite of recent efforts, UNCDF requires better approaches to manage its knowledge more effectively. It has implemented a number of stand-alone information systems, but these have not improved its efficiency in managing knowledge. The Intranet is still an underutilised resource. However, this area has been flagged internally and steps are being taken to improve substantive knowledge sharing within programmes and across programmes – drawing on both HQ and field experience.

19. **Communication and Branding** – UNCDF has developed a variety of effective communication materials to articulate its identity to the external world, but the branding of the Fund remains problematic and does not do justice to the quality of the work undertaken.

20. **UNCDF Structure** – The ongoing decentralisation of technical advisory and programme management staff is an appropriate strategy for UNCDF. In spite of some changes, UNCDF's structure still presents challenges with respect to internal communication and coordination within HQ and between HQ and the field.

21. **Partnerships** – UNCDF has increased the number of partnerships with various agencies and these are quite positive. It has also developed constructive partnerships with academic and research partners and is appreciated as a strong contributor in building knowledge. Its partnership with UNDP is important and profitable to both organisations, but would be more effective if institutional roles and responsibilities were further clarified. The relevance of UNCDF partnerships could be further enhanced if they fit into a broader partnership strategy.

Conclusions

22. UNCDF is an effective organisation that has, by and large, organised its existing portfolio according to the 1995 policy shift and responded to the recommendations of the independent external evaluation conducted by ITAD (Information, Training and Agricultural Development) in 1999. The Fund has also contributed to significant results through both its microfinance and local governance programmes in poverty reduction, policy impact, and replication of its projects by donors. UNCDF's areas of expertise are very much in demand in LDCs and respond to the MDGs as well as to country needs. In fact, LDCs are asking for more of UNCDF's services. UNCDF is praised by the majority of its stakeholders as a flexible partner that is active in developing knowledge, effective in implementing projects, and

influencing the orientation of the sectors in which it works. Since 1999 UNCDF has achieved generally positive results, as noted in its annual self-assessment reported in the Results-oriented Annual Report (ROAR) and confirmed in this assessment. Moreover, UNCDF has been creative in remaining a relatively efficient organisation, and achieved a balanced budget in 2003. This success – and it is a success – is due to various factors, including a dedicated and talented team of staff and leaders, innovative thinking, a clear niche, and an ability to match its expertise to the needs of the LDCs. Like many organisations, UNCDF has some limitations that were noted in this report, for example in knowledge management, communication and branding.

23. The real issue for UNCDF, however, is the more fundamental question of its financial viability after 2004, which, at the moment, is questionable. In our view, this dilemma is the result of several factors: the mismatch between the niche of UNCDF and international donor funding trends; UNCDF's governance structure, which is not as enabling as it could be to address these viability questions; and UNCDF's role in the UNDP Group, which should be clarified. The Fund is at a critical stage in its life and, as suggested by the former Executive Secretary, would like to address its future actively rather than dying "a slow death."

Recommendations

24. Recognising the urgency of the situation, the following recommendations are addressed to the Executive Board, the Administrator of UNDP and the UNCDF Management Team. The IIA team urges stakeholders to fully take into account these recommendations in the on-going discussions about UNCDF's future. We have grouped the recommendations in broad categories that link to the findings on UNCDF's performance.

Positioning, Niche, and Relationship to its Key Partner - UNDP

Recommendation 1

25. **The Administrator of UNDP and the UNCDF Management Team should clarify the role and responsibilities of UNCDF within UNDP and its associated Funds. This clarification would be part of a larger strategy undertaken by the UNDP Group that would support both organisations in positioning themselves to tackle the development problems that are part of their respective mandates.**

26. The niche of UNCDF as an agency is very much linked to its partnership and role within the UNDP Group. As noted in this report, the absence of a clear definition of how UNCDF can/could support the organisational goals of UNDP limits UNCDF's ability to remain viable and does not help UNDP in addressing UNCDF's funding issue. Until now, UNCDF and UNDP have clarified their collaboration only through programming MoUs in microfinance and in local governance. In our view, this is not sufficient, and limits the greater institutional synergy that could emerge from a clearer definition of the role of UNCDF in helping UNDP reach its broad goals.

27. This discussion and clarification are key at this stage in the life of UNCDF – they could allow UNDP to see UNCDF as an even more strategic partner in reaching some of UNDP's goals. Greater clarity on synergies between the two organisations could also enable UNDP to actively mobilise resources for UNCDF.

28. This organisational strategy between UNCDF and UNDP could include the following points:

- What is expected from UNDP and its associated Funds (specifically UNCDF) with respect to UNDP's expected results? To what extent should it align with UNDP and its interests/goals? Or, is there an overall framework for the UNDP Group that associated funds should align with?
- Are the mandates and niches of UNDP and its associated Funds (particularly UNCDF) sufficiently robust to support the expected results of UNDP or of the UNDP Group?

- What would be an adequate cost-recovery system for the relationship between UNDP and its associated Funds, particularly UNCDF?

29. In the context of these strategy discussions, it is critical to address the issue of UNCDF's programme niche (areas of focus/strategic positioning), based on its comparative advantage, the market, its need to access funds, and the interests it shares with UNDP (for example in private sector development). The IIA only begins to identify limitations and possibilities. We recommend that a consultative process be designed in which a broad group of stakeholders beyond UNDP and UNCDF – including donors, programme countries, experts in the subject areas – can contribute in the affirmation, further focusing, or redefining of UNCDF's programme niche. In this process it would be important to take into consideration the recognised expertise, results, reputation, and demand from LDCs that UNCDF has built in its current two programme areas. This would ensure that redefinition is anchored in UNCDF's comparative advantages, contextual demands and opportunities.

Financial Viability, Resource Mobilisation, and Governance

Recommendation 2

30. **The Senior Management Team of UNCDF should establish a team to review and analyse UNCDF's business model and corporate governance arrangements and their strengths and weaknesses, and to propose some alternatives on the future of the Fund in light of the current decision-making process. Some options are provided below.**

31. In the 1960s, UNCDF was created by the General Assembly with the general mandate of assisting developing countries in achieving accelerated and self-sustained economic growth by supplementing their existing sources of capital assistance. Over the past decades the Fund has evolved to some extent in response to the broader context – balancing the reduction in contributions on the one hand with the capital and technical assistance needs of LDCs on the other, but without changing fundamentally its governance structure, mission, management arrangements and funding modality. In analysing the Fund's future, it may now be necessary to analyse the business model and governance structure that provide the foundation for its work.

32. In this regard, there are several options for the future of UNCDF. Only three main options are discussed below. Each has an orientation that is either market-driven, where financial viability drives the organisation's approach, or mission driven, in which the needs of the LDCs and innovation drive its approach. It should be noted that the evaluation team provided these options as potential illustrations of a way forward. Additional options may be identified once the recommendation is implemented. Similarly, these options should be fine-tuned by the group responsible for addressing the recommendation in order to reflect the feasibility of their implementation.

- **Option 1: Entrepreneurial model**

  UNCDF becomes a more entrepreneurial organisation. Its governance structure moves towards a broader representation, and its mandate widens. UNCDF obtains management autonomy from UNDP, and the Executive Secretary (renamed) becomes head of UNCDF. In this option, UNCDF's relationship to the Executive Board would need to be clarified according to the revised management structure. UNCDF would target and market its microfinance and local governance services to all countries and international agencies (CGAP as an example) and develop a cost structure that makes it competitive. This could have implications for UNCDF's current LDC focus. It would become a more demand-driven organisation and less of an innovative instrument of the UN family. The greater demand-orientation limits the extent to which UNCDF can preserve its current mission-driven nature. Funding would be generated primarily through fees for services.

- **Option 2: UNDP Instrument**

  UNDP and UNCDF become more strategically aligned and increase the pool of funds. This arrangement would imply no changes to the corporate governance structure. UNCDF's mission would become more closely aligned to UNDP's programme and priorities (i.e., private sector, water). There are many ways for the two organisations to align. For example, the UNDP

Administrator suggested that UNCDF and UNDP could combine forces on focused initiatives (i.e. water infrastructure initiative of the MDGs). Such an effort could capture the minds and hearts (and therefore the financial support) of donors around an important goal. The selection of common initiatives, however, would need to be made carefully, based on UNCDF's existing or strategically developed comparative advantage, as well as clear demand from donors and recipients. Funding would be more secure, based on UNDP funding (UNDP provides core resources to UNCDF out of its voluntary contributions) in addition to assessed and/or voluntary contributions from donors.

- **Option 3: Status quo with assessed contribution**

  This option would bring no changes to the current corporate governance, mission, and management arrangements. The primary shift would be in developing a more secure and diversified approach to funding. Certain adjustments would be made to the status quo, for example, by moving to assessed rather than voluntary contributions and expanding the range of organisations and the arrangements through which UNCDF seeks resources to carry out its mission (i.e. expanding resources obtained from World Bank, foundations, new private sector partnerships). These changes in practice would be consistent with the original Charter of UNCDF and would provide UNCDF with a more predictable stream of income. UNCDF continues the decentralisation of services that has begun within both programming units, but would focus on countries where there is high demand for its services and a high potential for UNCDF to obtain funds for its services (i.e. countries with a high potential for generating revenues).

33. All of these options, or possibly a combination of them, should be examined strategically as a matter of the highest priority for UNCDF. The options are meant to illustrate the types of business models and corporate governance arrangements available to UNCDF. Following a decision on this, UNCDF should then proceed with elaborating a complementary partnership strategy.

Summary of Business Model Options

Option		Implications			
		Governance Structure	Mission and Niche	Management Arrangements	Market Orientation and Funding
1	Entrepreneurial Model	Broader representation Redefined relationship between UNCDF and Executive Board	Local governance and microfinance services to all nations and other agencies (who can pay)	Autonomous management with greater decision-making authority	Market-driven Competitive cost structure Funding primarily through fees for services
2	UNDP Instrument	UNCDF continues to be governed by the UNDP/UNFPA Executive Board	More closely aligned to UNDP's Programmes, priorities and geographic focus	UNDP Administrator remains the Managing Director of UNCDF	UNDP-driven UNDP funding, possibly plus assessed and/or voluntary contributions to UNCDF
3	Status quo with Assessed Contribution	UNCDF continues to be governed by the UNDP/UNFPA Executive Board	Support to local governance/decentralization and microfinance/inclusive financial sectors in the LDCs	UNDP Administrator remains the Managing Director of UNCDF	Mission-driven Assessed and/or voluntary contributions Expanded array of options for funding

Recommendation 3

34. **If UNCDF is faced with the continued decline in programme expenditures in the coming years, it will need to make significant reductions in the administrative budget or find alternative sources of funding for this budget item.**

35. If UNCDF cuts programming any further, the staffing complement and infrastructure will be out of line with programme expenditures. At this point, UNCDF will need to look at making cuts in its administrative / HQ budget. However, budget cuts are possible only until they begin affecting the 'critical mass' of people and infrastructure at headquarters that are required to respond to UNCDF's context.

36. There are options for managing these issues:
    - Increase funds available for programme approvals (from core contributions and other sources);
    - Reduce administrative expenditures to the level of necessary critical mass of staff;
    - Include technical advice as part of programme spending, as is done in other agencies;
    - Assess the contribution that non-core funding agreements can make in covering HQ costs;
    - Improve cost-recovery for services currently provided to UNDP at a subsidised rate;
    - Develop other sources or mechanisms to cover administrative/HQ costs.
    - Transform UNCDF's status into an Executing Agency Status, which would allow the agency to execute or implement specific programme components, once funding has been secured from UNDP or other development agencies[1].

Strategic Leadership

Recommendation 4

37. **The UNDP Administrator, as a matter of urgency, should work with the Executive Board and UNCDF Management Team to identify a new Executive Secretary for UNCDF.**

38. The identification of a new leader is an urgent issue for UNCDF. While the Fund is producing good results and has the support of its major stakeholders, uncertainties about funding and how and what decisions will be made about UNCDF's future are affecting staff morale. Senior UNDP officials are undecided about whether to set the direction of UNCDF first and then hire an Executive Secretary, or to appoint an Executive Secretary to lead the change. In our view, the cost of leaving the situation fluid is greater than the cost of making a decision as quickly as possible. The selection process should consider the importance of both intellectual leadership and strategic management competence of a new Executive Secretary.

Effectiveness

Recommendation 5

39. **UNCDF should address the recommendations made in the PIAs and incorporate relevant recommendations into future programming.**

40. The IIA team reviewed the recommendations of the PIA and conducted a field mission in order to look at the extent to which UNCDF had development impacts. Our conclusion is that although UNCDF is generally strategically positioned to achieve its objectives and its activities make a significant contribution to poverty reduction, policy impact and replication, and the sustainability of results several areas could be strengthened in order to lead to improved results.

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[1] In a presentation of the ROAR to the Executive Board, mention was made by the former Executive Secretary that "there was growing demand for UNCDF to act as an executing or cooperating agency" and suggested that UNCDF was preparing a formal proposal to the Executive Board.

41. In local governance programming, the PIA suggested several recommendations that would help UNCDF achieve better results. Some of the recommendations go beyond what UNCDF can achieve alone but, rather, are to be addressed by the local governments. For example:

- Clarifying the structure and role of various government substructures, as well as the relationship between local government and other tiers of government.
- Ensuring greater cooperation and collaboration between sector ministries and local governments, for example, by extending and institutionalising decentralisation innovations to sector management at a local level
- Addressing the need for structures and systems that contribute to effective downward accountability

However, the following areas for improvement can be addressed by UNCDF:

- Including strategies that explicitly link LDPs to Local Economic Development (LED); LED would be an important pillar of local development in conjunction with, and to support, existing local development interventions
- Improving the integration of natural resource management into the LDP approach
- Working with central governments on the timeliness of fiscal transfers to local governments, as a matter of priority
- Providing greater support and capacity to Local Governments for the generation of own source revenue and for securing a sufficient recurrent budget for maintenance of services and infrastructure
- Investing in capacity building in the area of participatory and strategic planning to ensure that these processes are genuinely empowering and inclusive
- In as much as its funding constraints allow, trying to maintain a significant in-country presence of senior technical advisers, programme managers or regional technical advisers

42. In microfinance, the PIA suggests that UNCDF could improve results by focusing on three broad areas for improvement:

- Reviewing all microfinance activities to assess the extent to which they are demand-driven and therefore encourage the development of a healthy market/competitive environment
- Move from a passive funder role to step up engagement in networking, collaboration, and partnerships, and continue to contribute to the deepening of financial systems through concerted, high impact interventions.
- Internalising the concept of a 'learning organisation' within the Microfinance Unit, enhancing the existing evaluation culture through more systematic follow-up, monitoring and timely internal and industry-wide dissemination of lessons learned

The PIA report provides more detailed recommendations per Impact Area.

43. UNCDF should review these recommendations using a process similar to the one used following the 1999 independent external evaluation and, as appropriate, address these recommendations in future programming.

Recommendation 6

44. **UNCDF should continue to implement the actions necessary to achieve its commitment to gender mainstreaming and equality. In so doing, it should consider developing a closer relationship with UNIFEM.**

45. The UNCDF response to the gender mainstreaming study conducted in 2002, which focussed on LG programmes, included a gender mainstreaming action plan for 2002-2004. Some of the steps outlined in that action plan have been completed (for example, ensuring that gender is addressed in the UNCDF Impact Assessment exercise). For others, it is less clear what progress has been made, yet

the action areas remain relevant for the whole organisation (both microfinance and LGU programming). For example:

- Clarification of Institutional Arrangement for Gender Mainstreaming
- Review, simplification, and reissuing of Corporate Gender Mainstreaming Policy; these guidelines should be user-friendly and readily accessible to all staff and partners.
- Review of project budget allocations for gender activities; in projects where there are funds allocated to gender activities or designated positions for gender specialists, UNCDF needs to take extra steps to make sure that the activities are carried out and the posts are filled as envisioned in the project design document.
- Gender screening at project formulation, which can be done by integrating the opinion of gender specialists from the UN system in the peer review teams.
- Gender capacity building, including training of staff and the broadening of the pool of gender experts at the local level, with expertise in either microfinance or local governance.
- Incentives for gender mainstreaming incorporated into job descriptions.

However, it is critical that the organisation prioritise among these areas and set reasonable milestones that can be achieved in the context of scarce resources.

UNCDF Branding

Recommendation 7

46. **Regardless of the decisions made with respect to the future directions of UNCDF, the Fund requires** clearer brand identification – clearer mission statement, symbols, templates, logos.

47. Our data suggest that there is relatively little differentiation in the field between UNCDF and UNDP. This could become even cloudier, depending on the decisions made with respect to the future of the relationship between UNDP and UNCDF. A number of elements hinder the branding – the name 'UNCDF' itself; the lack of distinction made between the missions of UNCDF and UNDP; and the absence of distinctive symbols. UNCDF is aware of the need to brand the Fund both internally and externally and has developed a Communication Strategy, which is a good first step. It could go further in asking for a better differentiation between UNDP and UNCDF. The Year of Micro-credit (2005), which UNCDF is jointly co-ordinating with UN DESA, could be used to launch the UNCDF brand.

Knowledge and Information Management

Recommendation 8

48. **UNCDF should continue to invest in knowledge sharing, particularly in those knowledge systems that will increase the synergy between operational units and improve knowledge sharing in the field.**

49. Modern organisations are constantly striving to improve their ability to generate and use the knowledge they gain from experience. For UNCDF this occurs within both programmes and the evaluation unit. While UNCDF is constantly improving ways to use and share knowledge in each programme area, our evaluation suggests that it still needs to improve its ability to share information across programmes or operational units. This could be done through cross-programme work groups or teams that could distil and share programming lessons and review the approaches used to disseminate knowledge in the field. The Microfinance PIA also identifies the need to internalise "learning organisation" concepts as a broad area for improvement in the organisation. UNCDF has already begun to implement a series of actions to improve its management of knowledge (including the revamping of its Intranet in March 2004) and we support the pursuit of the recommendations set forth in the 2002 Knowledge Management Report.

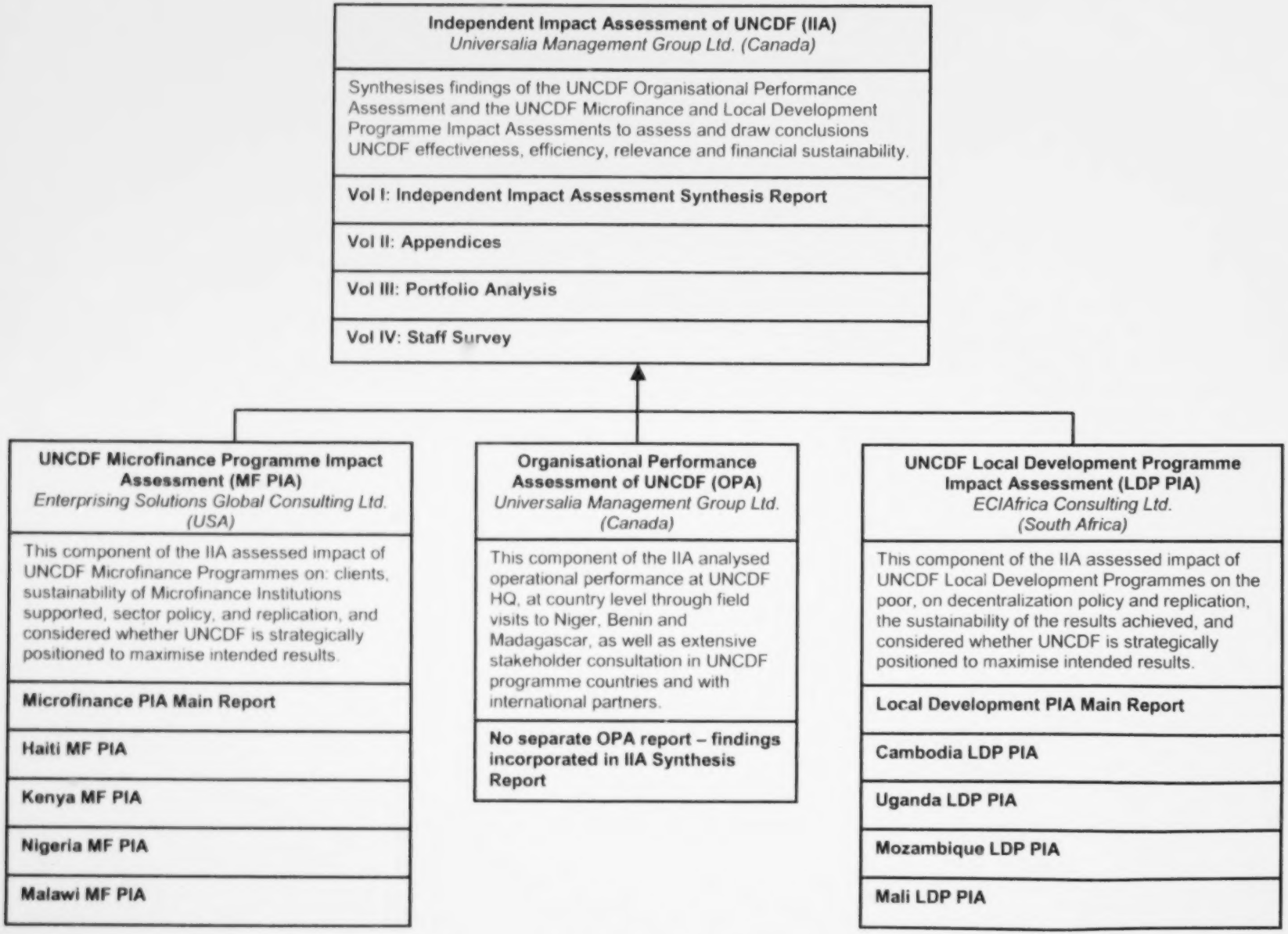
Recommendation 9

50. As the various clusters and modules of Atlas are being deployed, we recommend that UNCDF create a monitoring team to oversee their implementation, to understand if the deployment of these modules has addressed the operational issues raised in the IIA and in other UNCDF Functional Analyses.

51. UNCDF has great expectations for the implementation of Atlas, which is a system designed to increase the efficiency of the Fund in managing its programmes, people and finances. It is hoped that the new system will lead to improvements, but it may not address all the issues that have been raised about effective resource management.

52. As the modules of Atlas are being implemented, UNCDF should monitor whether each module addresses the concerns about planning and deployment of resources, results-based management, human resources management, income management, cash management, procurement and the management of fixed assets.

Annex 1: Components of the 2004 Independent Impact Assessment of UNCDF


Independent Impact Assessment of UNCDF (IIA)
Universalia Management Group Ltd. (Canada)
Synthesises findings of the UNCDF Organisational Performance Assessment and the UNCDF Microfinance and Local Development Programme Impact Assessments to assess and draw conclusions UNCDF effectiveness, efficiency, relevance and financial sustainability.
Vol I: Independent Impact Assessment Synthesis Report
Vol II: Appendices
Vol III: Portfolio Analysis
Vol IV: Staff Survey
UNCDF Microfinance Programme Impact Assessment (MF PIA)
Enterprising Solutions Global Consulting Ltd. (USA)
This component of the IIA assessed impact of UNCDF Microfinance Programmes on: clients, sustainability of Microfinance Institutions supported, sector policy, and replication, and considered whether UNCDF is strategically positioned to maximise intended results.
Microfinance PIA Main Report
Haiti MF PIA
Kenya MF PIA
Nigeria MF PIA
Malawi MF PIA
Organisational Performance Assessment of UNCDF (OPA)
Universalia Management Group Ltd. (Canada)
This component of the IIA analysed operational performance at UNCDF HQ, at country level through field visits to Niger, Benin and Madagascar, as well as extensive stakeholder consultation in UNCDF programme countries and with international partners.
No separate OPA report – findings incorporated in IIA Synthesis Report
UNCDF Local Development Programme Impact Assessment (LDP PIA)
ECIAfrica Consulting Ltd. (South Africa)
This component of the IIA assessed impact of UNCDF Local Development Programmes on the poor, on decentralization policy and replication, the sustainability of the results achieved, and considered whether UNCDF is strategically positioned to maximise intended results.
Local Development PIA Main Report
Cambodia LDP PIA
Uganda LDP PIA
Mozambique LDP PIA
Mali LDP PIA